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Second Ad Hoc Review Meeting on Bauxite
Geneva, 29 April 1993
Item 5 of the agenda

# REPORT OF THE AD HOC MEETING ON BAUXITE

held at the Palais des Nations, Geneva
from 29 to 30 April 1993

Rapporteur: Mr. David COUTTS (Australia)

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# INTRODUCTION

1. In accordance with the decision adopted by the Ad Hoc Review Meeting on Bauxite at its 4th meeting on 17 May 1991, and taking into account the results of consultations held with producers and consumers of bauxite, the Secretary-General of UNCTAD convened the Second Ad Hoc Review Meeting on Bauxite from 29 to 30 April 1993.

2. In the course of the session, two plenary meetings were held. At its 1st (opening) meeting on 29 April, it was decided, following statements made by five participants on agenda item 3, to pursue discussions on that agenda item in informal meetings. It was agreed that a summary of the informal discussions for inclusion in the report would be presented by the Chairman at the closing plenary meeting.

3. In his introductory statement, the Deputy to the Secretary-General of UNCTAD and Director of the Commodities Division, in welcoming participants, recalled that the meeting was being held at a time when the bauxite/alumina/aluminium industry faced major problems. Since the first Ad Hoc Review Meeting on Bauxite, in May 1991, the price of aluminium had remained very low; recently it had fallen to levels that must be considered unsustainable in the long run. It was estimated that smelters accounting for more than half of the aluminium capacity in the world outside the countries of Eastern Europe and the socialist countries of Asia were unable to cover their operating costs at current prices. The accumulation of stocks on the London Metal Exchange had reached record levels.

4. Although world demand was expected to increase at a higher rate in 1993 than during the previous two years, there was little prospect of a rapid drawdown of stocks with a consequent return to more normal price levels in the short term, if world output remained at the present level. The prevailing depressed prices might also have a negative effect on long-term market stability. There was a risk that, given the long lead times required for new capacity to become operational, capacity might be insufficient to meet demand in a few years' time. The aluminium industry might then find itself in the kind of boom and bust cycle common to other minerals and metals. Such a development could have serious implications for the competitiveness of aluminium vis-à-vis other materials, in particular in end uses where a premium is placed on stability and predictability of prices.

5. The depressed price of aluminium had also affected prices of the upstream products: alumina and bauxite. It was generally estimated that prevailing alumina prices were insufficient to justify investment in new capacity, with implications for the balance between supply and demand for alumina in future years. While bauxite mining was less vulnerable, given the relative ease with which output can be changed, it was clear that bauxite producers had also been negatively affected by the low aluminium price.

6. It was the hope of the UNCTAD secretariat that the discussions held during the Review Meeting would contribute to increased mutual understanding among Governments and between Governments and industry. The session could reinforce and give additional momentum to the process of dialogue and cooperation between all interested parties which had been set in motion by the First Ad Hoc Review Meeting in 1991.

# CHAPTER I

## REVIEW OF THE CURRENT MARKET SITUATION AND OUTLOOK
(Agenda item 3)

7. For its consideration of agenda item 3, the Second Ad Hoc Review Meeting on Bauxite had before it the following documents prepared by the UNCTAD secretariat:

"Market situation and outlook for bauxite, alumina and aluminium" - report by the UNCTAD secretariat (TD/B/CN.1/RM/BAUXITE/2);

"Bauxite, alumina and aluminium statistics 1982-1991" - prepared by the UNCTAD secretariat (TD/B/CN.1/RM/BAUXITE/3).

8. The representative of Canada stated that aluminium prices were too low to justify the investments necessary to maintain a healthy world industry capable of delivering good quality products at reasonable prices. In his country, two new smelters had come into operation in 1992, Alouette and Lauralco, with a combined production capacity of 430,000 tons, while Alcan had announced at the end of 1991 that it had cut its production by 68,000 annual tons. Its production had resumed in October 1992. Canadian primary aluminium production had risen from 1.83 million tons in 1991 to 1.972 million tons in 1992 and would probably exceed 2.2 million tons in 1993, thus nearing the nominal production capacity of 2.283 million tons. Primary aluminium consumption in Canada should rise from 485,000 tons in 1992 to 500,000 tons in the following year.

9. He said that the effects of the greatly increased aluminium exports from the republics of the former USSR had aggravated an already bad situation in the world market. The difficult integration of Eastern European producers into the world aluminium market would make its effects felt during several years. This fact underlined the importance of market transparency, which was far from being a reality. He called for more regular exchange of complete and accurate data on production, consumption, stocks and trade.

10. The representative of Australia stated that his Government believed that aluminium prices would remain low in 1993. The stock overhang was large and, until it was reduced, any gain in prices was most unlikely. Important factors underlying the present situation were low demand due to the poor state of the world economy, the persistence with which the aluminium industry had maintained output despite low prices, and the substantial increase in exports from the republics of the former USSR. Australian government experts had forecast an increase in aluminium demand by 4 per cent in 1994, based on a projected 4.5 per cent increase in OECD industrial production. This would mean that some strengthening of prices could be expected in 1994. Other sources had put the average annual increase in aluminium demand over the next two to three years at less than 3 per cent. If so, there might be no significant price increase until 1996. In either case, further closures of smelting capacity would be necessary, probably mainly in Europe or the United States, where production costs were highest. Australia expected

bauxite and alumina markets to remain reasonably steady, partly because of the growing demand for alumina from the republics of the former USSR and from China. The risk of present low prices dissuading investment and leading to future scarcity was low in the medium term. The industry would be able to adjust to changes and significant new aluminium capacity would come into production in future years, including in Australia.

11. The representative of the European Community said that the world aluminium market was experiencing an exceptional situation, due mainly to the opening of the industry of the republics of the former USSR to Western markets as well as other factors, including the increase of secondary aluminium production. Eventually the situation should improve in Eastern European countries but the structure of the market would have changed.

12. He stressed the importance of capacity closures in order to help solve the prevailing problems of the market. He stated that closures in Western Europe had been more extensive than in North and Latin America. Permanent closures by producers in the European Community in the years 1991 and 1992 corresponded to 252,000 tons per year, and temporary closures to 378,000 tons per year. Permanent closures by producers in the countries of the European Free Trade Association corresponded to 164,000 tons per year and temporary closures to 43,000 tons per year over the same period. The figures for North America were 157,000 tons per year in temporary closures and 0 in permanent closures, while for Latin America they were respectively 27,000 and 75,000 tons per year. These figures demonstrated the need to share in contributing to a solution to the crisis. To this end, it was necessary to increase market transparency, inter alia through improved statistics on exports coming from the republics of the former USSR.

13. The representative of the United States of America stated that market transparency was a very important objective, and that improved insight into trade statistics, in particular concerning the republics of the former USSR, should be a crucial element of transparency. He added that temporary closures of aluminium smelting capacity in his country at present corresponded to 430,000 tons per year.

14. The representative of Jamaica expressed her country's concern, as a major producer of bauxite, over the decline in aluminium prices which had considerably affected Jamaica's foreign exchange earnings since 1990. She felt that the discussions should address the issue of how to work towards a recovery in aluminium prices.

15. There was discussion on possible future consideration of gaps in statistical information and the preparation of a report by the UNCTAD secretariat to assist discussions under agenda item 4 of the provisional agenda for the third session (contained in Annex I to the present report). In this context, several participants declared that they would provide the secretariat with suggestions in this regard, and that they would make efforts to communicate their ideas to the secretariat before 31 July 1993. The UNCTAD secretariat was encouraged by several participants to solicit the views of interested Governments in the preparation of documentation on this subject.

Action by the Second Ad Hoc Review Meeting on Bauxite

16. At its 2nd (closing) meeting, on 30 April 1993, the Review Meeting adopted a draft decision submitted by the Chairman (TD/B/CN.1/RM/BAUXITE/L.1), as amended. (For the decision adopted, see Annex I).

17. The Review Meeting also decided to annex to the report on its session the Chairman's summary of discussions in the informal working group on agenda item 3 (see Annex II).

## CHAPTER II

## ORGANIZATIONAL MATTERS

A. Opening of the meeting

18. The Second Ad Hoc Review Meeting on Bauxite was opened on 29 April 1993 by the Deputy to the Secretary-General of UNCTAD and Director of the Commodities Division, who made an introductory statement (cf. paras. 3-6 above).

B. Election of officers (agenda item 1)

19. At its 1st (opening) meeting on 29 April 1993, the Review Meeting elected the following officers to serve on its Bureau:

Chairman: Mr. Pierre RICARD-DESJARDINS (Canada)

Vice-Chairman-cum-Rapporteur: Mr. David COUTTS (Australia)

C. Adoption of the agenda and organization of the work (agenda item 2)

20. At the same meeting, the Review Meeting adopted the provisional agenda for its first session (TD/B/CN.1/RM/BAUXITE/1) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the current market situation and outlook

4. Other business

5. Adoption of the report of the Second Ad Hoc Review Meeting

21. With regard to the organization of the work, the Review Meeting at its opening meeting, following statements made by five participants on agenda item 3, agreed to take up the agenda item in an informal working group, to allow for a free-ranging discussion of the issues.

D. Membership and attendance[1]

22. The following States members of UNCTAD were represented at the session: Australia, Belgium, Brazil, Bulgaria, Cameroon, Canada, Denmark, France, Germany, Ghana, Greece, India, Indonesia, Italy, Jamaica, Japan, Mexico, Netherlands, Norway, Philippines, Portugal, Russian Federation, Spain, Turkey, United Kingdom of Great Britain and Northern Ireland, and United States of America. The European Community was also represented.

23. The following specialized agencies were represented: International Labour Organization; International Monetary Fund.

24. The following intergovernmental organizations were represented: International Bauxite Association; Organisation for Economic Co-operation and Development.

25. The following non-governmental organization was represented at the Meeting: International Primary Aluminium Institute.

E. Adoption of the report of the Second Ad Hoc Review Meeting on Bauxite to the Standing Committee on Commodities
(agenda item 5)

26. At its 2nd (closing) meeting on 30 April 1993, the Review Meeting adopted its draft report (TD/B/CN.1/RM/BAUXITE/L.2) and authorized the Rapporteur to complete the final version as appropriate.

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[1] For the list of participants, see TD/B/CN.1/RM/BAUXITE/INF.1.

Annex I

Decision adopted by the Second Ad Hoc Review Meeting on Bauxite

The Second Ad Hoc Review Meeting on Bauxite,

Decides to recommend that the Secretary-General of UNCTAD convene a third Ad Hoc Review Meeting on Bauxite early in 1994 for a duration of two days;

Agrees on the following provisional agenda for the third Ad Hoc Review Meeting:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the current market situation and outlook

4. Review of accuracy and completeness of available statistics on bauxite, alumina and aluminium and possible measures to be taken thereon

5. Other business

6. Adoption of the report of the Ad Hoc Review Meeting.

2nd (closing) meeting
30 April 1993

## Annex II

## CHAIRMAN'S SUMMARY OF DISCUSSIONS IN THE INFORMAL WORKING GROUP ON AGENDA ITEM 3: REVIEW OF THE CURRENT MARKET SITUATION AND OUTLOOK

1. Discussions in the informal working group revolved chiefly around the gaps and inaccuracies in existing sources of information on the bauxite/alumina/aluminium industry. Some delegations provided detailed comments on the analysis and the figures presented in the secretariat documents. It was agreed that there were significant gaps in the available information on several items of importance. Examples of such items were certain data on trade, aluminium stocks and secondary aluminium.

2. It was generally agreed that improvements in statistics on the production, consumption and trade of bauxite, alumina and aluminium in the republics of the former USSR would contribute significantly to a better understanding of the dynamics of the markets for these commodities. In response to questions, the representative of the Russian Federation provided information on recent developments in the republics of the former USSR. He said that aluminium production in the USSR in 1990 had been 3.523 million tons. In 1991, it had decreased to 3.251 million tons, of which 83 per cent originated in his country. Alumina production the same year had been 5.3 million tons, of which half in Ukraine, Kazakhstan and Azerbaijan. Primary aluminium consumption in the Commonwealth of Independent States in 1992 had been 2.3 to 2.4 million tons. This figure was, however, uncertain, and might represent an underestimate. Primary aluminium exports of Concern Aluminyi, which is responsible for almost all exports and imports of bauxite, alumina and aluminium in the republics of the former USSR, were 800,000 tons in 1992. The company's imports of alumina and bauxite the same year were respectively 1.7 and 4 million tons. During the last five years, its total annual aluminium exports had increased by 240,000 tons, and during the last three years by 100,000 tons. However, former USSR exports to market economy countries had increased by 550,000 tons over that five-year period, and by 349,000 tons in 1991 alone.

3. Other representatives presented information on their trade with the republics of the former USSR and estimates of total exports from these countries.

4. The observer from the International Primary Aluminium Institute (IPAI), while responding to a question concerning the exact coverage of IPAI aluminium inventory data, informed the Meeting that the IPAI had recently published its "Bauxite Mine Rehabilitation Survey", which contains detailed information on the environmental impact of bauxite mines and on their rehabilitation.

## Annex III

## CHECK-LIST OF DOCUMENTS SUBMITTED TO THE REVIEW MEETING

| Symbol | Title |
|---|---|
| TD/B/CN.1/RM/BAUXITE/1 | Provisional agenda, annotations to the provisional agenda and suggestions for the organization of the work |
| TD/B/CN.1/RM/BAUXITE/2 | Market situation and outlook for bauxite, alumina and aluminium |
| TD/B/CN.1/RM/BAUXITE/3 | Bauxite, alumina and aluminium statistics 1982-1991 |
| TD/B/CN.1/RM/BAUXITE/L.1 | Draft decision submitted by the Chairman |